

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2002 through the Fourth Quarter of 2006

In the past, Idaho's economy has been described as the caboose of a long train. For years this was an apt description because the state's economy was usually the last to slow down in a national business contraction and the last to move during an expansion. Because of the state's relatively heavy resource base, it traditionally took awhile for the ripple effects of weak demand to be felt locally. On the other hand, it also took longer to feel the effects of growing demand. No analogy is perfect, but this one seemed to capture the link between the state and national economies reasonably well for a long time.

This railroad metaphor was put to the test during the 1990-91 recession, however. The national slowdown had all the classic traits. Shaken consumers curbed spending, which caused output to nosedive. Faced with softer demand, U.S. companies shed jobs. In 1991, nonfarm employment shrank 1.4% in 1991 and grew a meager 0.3% in 1992 and 1.9% in 1993. Here is where the traditional railroad comparison breaks down. Idaho nonfarm employment never stopped growing during this period. In 1991 alone, it advanced a healthy 3.3%--and this was its low point. It accelerated in each of the next three years growing by an astounding 5.6% in 1994. To salvage the train analogy, it was as if Idaho's economy had decoupled, jumped onto another track, and was a runaway north.

Idaho's success during that period was due in large part to its economic transformation. From being almost nonexistent in the early 1970s, the state's high-tech sector was becoming a major player by the 1990s. For example, this sector, which accounted for just 3.0% of manufacturing employment in 1970, was the largest manufacturing employer by 1995 and accounted for over 25.0% of manufacturing employment. This worked to the state's advantage during the 1990-91 recession because the state's high-tech sector was producing a mix of goods that was in demand during the nation's business investment boom. The state also grew with the flood of newcomers arriving in the 1990s in the hope of improving their economic situation.

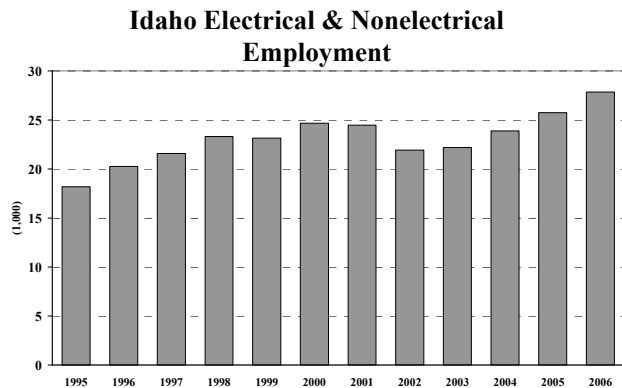
Ironically, it is the state's dependency on high-tech manufacturing that has caused it to suffer from the start of the 2001 recession. High-tech manufacturing declined 0.8% in 2001 and an estimated 10.3% in 2002. Idaho total nonfarm employment dropped an estimated 0.3% in 2002. The reason high-tech is suffering more than in the previous recession is because the train cars have been rearranged. Instead of being caused by the traditional drop in consumer spending, the 2001 recession reflected a collapse in business investment. Idaho's high-tech sector is coupled directly to this car, so the impact of the collapse on Idaho was almost immediate. This also infers the high-tech sector will move forward again once the nation's investment engine picks up steam. The good news is it is already showing signs of leaving the station. Real investments in computers and software have experienced strong gains recently. Of course, there is still a lag between when national investment recovers and local high-tech employment improves. The current schedule shows the high-tech sector is back on track in the second half of this year.

The anticipated growth in the high-tech sector should help lift the state out of its economic funk. It is estimated Idaho nonfarm employment shrank 0.3% in 2002 and real personal income rose 1.8% in 2001. Idaho nonfarm employment is forecast to rise 0.9% this year, 1.9% next year, 2.4% in 2005, and 3.3% in 2006. The accelerating employment growth will have a positive impact on real Idaho personal income. This measure is forecast to rise 2.3% in 2003, 3.3% in 2004, 3.5% in 2005, and 4.1% in 2006.

SELECTED IDAHO ECONOMIC INDICATORS

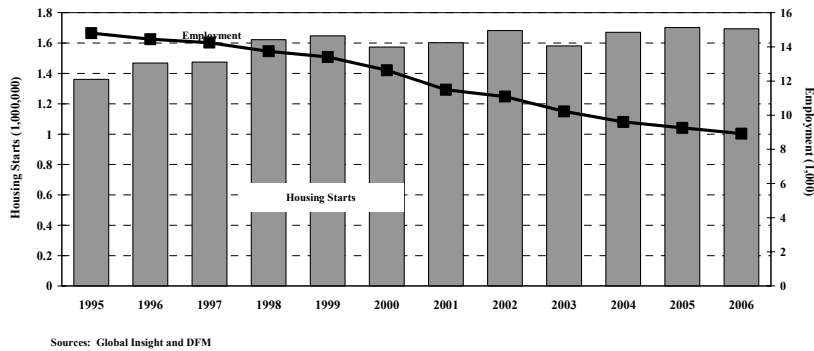
Electrical and Nonelectrical Machinery: The Gem State's high-tech sector is going through one of the toughest periods of its existence. Compared to the resource-based sectors, Idaho's high-tech sector is relatively young. According to historical records, this sector had approximately 1,800 employees in 1970, which was less than 3.0% of the state's manufacturing employment base. High-tech employment began to take off in the second half of the 1970s, and by 1980 the number of jobs had swelled to over 6,500. Interestingly, this was a period where significant changes had started to befall the state's stalwart resource industries. For

example, from 1979 to 1980 alone employment in the lumber and wood products sector shrank by nearly 4,400, or about 70.0% of that decade's gain. High-tech employment enjoyed moderate growth through the mid-1980s, then took off in the late 1980s. In the three-year period 1988 to 1990, employment jumped by nearly 4,200, which was more than in the previous dozen years. At times this sector seemed to defy gravity. Nationally, over 400,000 electrical and nonelectrical jobs were lost from 1989 to 1991. During this same period, and despite a national recession, Idaho high-tech sector added 2,100 jobs, a growth rate of almost 20.0%. It continued to expand through most of the 1990s. By 1995 it was the state's largest manufacturing employer, accounting for one out every four jobs. Unfortunately, it has not escaped the most recent manufacturing slump; it experienced its first employment decline since 1986 in 1999. The collapse in business investment has also played havoc with this sector. During the second half of the 1990s, U.S. real business investment grew over 10% annually. High-tech investment did particularly well during this period. Fueled by the widespread use of the World Wide Web, the Telecommunications Act of 1996, and Y2K, combined real spending on software, computers, and communications equipment advanced over 25% per year. In response to this strong demand, the output of office and computer equipment rose nearly 40% per year from 1995 to 2000 and the output of electronic components grew about 50% per year. The good times ended in 2001. In that year, real spending on equipment and software declined 4.4%. This put the brakes on office and computer equipment output growth, causing it to slow to just 2.3% in 2001. A local victim of the collapse is Jabil Circuit. The company closed its two-year old Meridian, Idaho manufacturing plant. This move cost an estimated 500 high-tech employees their jobs. The closure is another setback during one of the high-tech sector's most challenging periods. Unfortunately, this is just one in a series of layoffs. The ex-Jabil Circuit employees will join the ranks of the approximately 4,000 other Idaho high-tech employees that have lost jobs during the current downturn. After a devastating year, Idaho's electrical and nonelectrical sector's employment is expected to eke out a modest 1.2% gain this year, grow 7.6% in 2004, 7.9% in 2005, and 8.1% in 2006.



Lumber and Wood Products: Idaho lumber and wood products employment is expected to continue to shrink over the forecast period. This outlook reflects the impacts of long-term trends over short-term cycles. The demand for lumber is not the problem. In fact, the housing industry has remained strong during the recession. What is hurting the industry is the glut of lumber in the market, which has put downward pressure on prices and squeezed profits. The reasons for the excess supply include the strong U.S. dollar, Canadian competition, and the collapse of exports, which have directed more products into the North American market. A structural problem facing this industry is its chronic over capacity. One

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



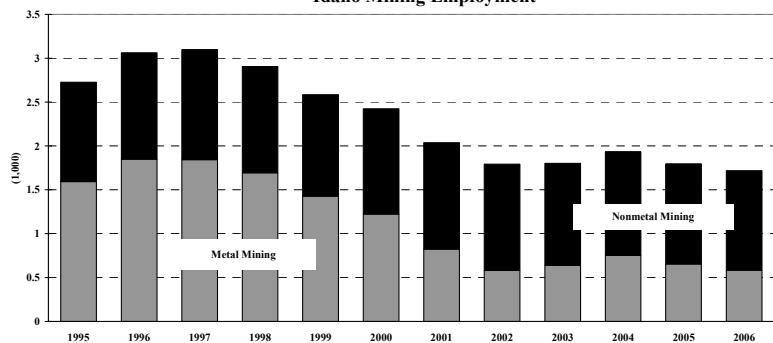
estimate shows this industry is already geared up to produce 20% to 25% more lumber than is being consumed in North America and Canada. As such competition for the lucrative U.S. market has been brutal. The good news is the excess supply will eventually disappear. But the bad news is it will result from the anticipated closure of older and less-efficient mills. There are more challenges. Like most of the region,

the health of the Gem State's industry depends on an adequate supply of public timber. Federal records show the amount of timber harvested from federal lands has indeed declined. According to U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. The toll of this dwindling supply of logs has been high. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 high-paying jobs. Unfortunately, mill closings have become an all-too-frequent occurrence in the West. *Random Lengths* recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. Idaho lumber and wood products employment is forecast to drop from 11,090 in 2002 to 8,915 in 2006.

Mining and Chemicals: Like the state's other resource-based sectors, Idaho's mining and chemical industries have struggled recently. The state's mining sector suffered its fifth straight year of employment declines in 2002. After peaking at about 3,100 jobs in 1997 it had less than 1,800 jobs in 2002. Most of the job losses were in the metal mining component, which shed over 1,200 jobs from 1997 to 2002. The state's

chemical sector has also fallen on hard times. Most notably, Astaris closed its Pocatello elemental phosphorus plant after more than a half a century of operation. Job cuts had been anticipated even before the October 11, 2001 closure announcement. Last March, the company reported its plan to shut down three of its four production furnaces and was planning to reduce its work force by half (around 200) by June 2002. The approximately 300 remaining employees and several hundred construction workers lost their jobs when plant permanently closed its doors. This type of closure is a major upheaval that sends shock waves through the community where they are located. This is because these companies are often the area's largest employer and have the highest paying jobs. Once these companies close down, they are not easily replaced. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-McGee closed its Soda Springs plant due to the low price of vanadium. Idaho mining employment is expected to grow both his year and next, but decline in

Idaho Mining Employment

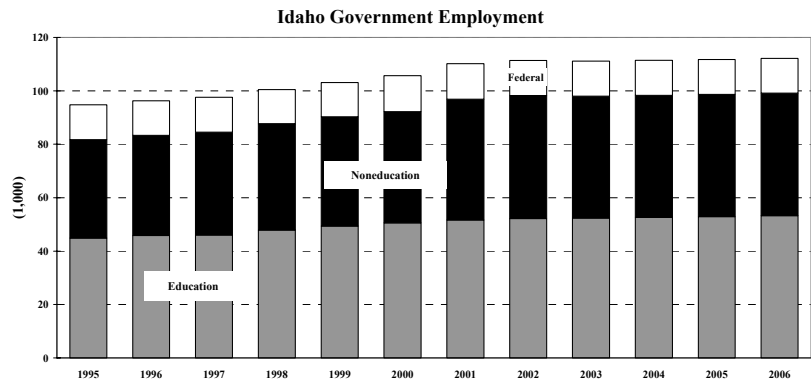


2005 and 2006. The Gem State's chemical sectors employment slide that started in 2001 is project to continue through 2006.

Federal, State, and Local Governments:

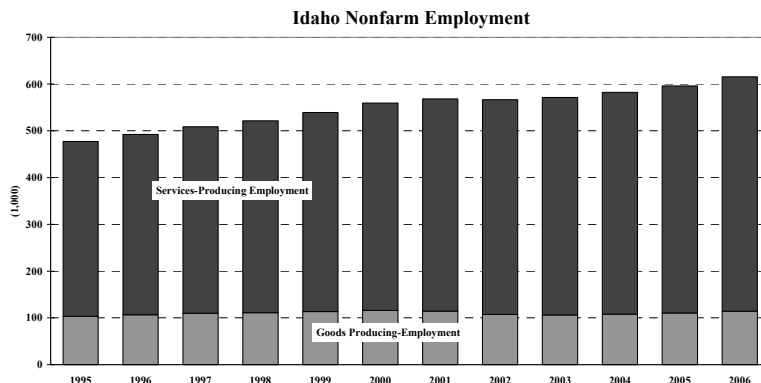
The anticipated tapering down of Idaho population growth and tight budgets should cause Idaho state and local employment to slow considerably over the forecast period. The connection between population growth and government employment is well documented. To see this, one can review the historical record.

From 1990 to 2000, Idaho's population jumped 28.5%. Traditionally, population swings of this scale in the Gem State are tied to migration. Bolstered by the state's booming economy, newcomers flocked to Idaho over the last decade. This in-migration tidal wave accounted for two-thirds of the increase in total population. Faced with growing pains that accompanied a fast growing state, all levels of government scrambled to ease the strain on the state's infrastructure. Idaho state and local government employment advanced over 3.5% annually during the first half of the 1990s in response to rapidly expanding needs. As the population growth slowed, governments took the opportunity to catch up. As the pressure from population eases further, the rate of job expansion will slow. But this is just one of the factors affecting employment growth. Local government budget caps will put an upper limit on employment growth. In addition, the tight state budget will also limit government payrolls. As a result of these factors, Idaho state and local government payrolls are expected to decline 0.3% in 2003, then rise 0.3% in 2004, 0.4% in 2005, and 0.5% in 2006. The fate of federal government employment in Idaho is determined by decisions made in Washington, D.C. While federal spending may be boosted, it remains to be seen how it will benefit Idaho. Increased spending on the military and homeland defense should have a limited impact locally because the U.S. military has a relatively small presence in this state. Idaho federal government employment is anticipated to decrease from 13,143 in 2002 to 12,991 in 2006.



Services-Producing Industries:

The state's services-producing sector is expected to be the sole source of new jobs in 2003. This is a repeat of what took place last year. In 2002, it is estimated Idaho total nonfarm employment declined 0.3%. This was the net of the 6.2% decline in the goods-producing sector and the 1.2% increase in the services-producing sector. This year, the goods-producing sector is

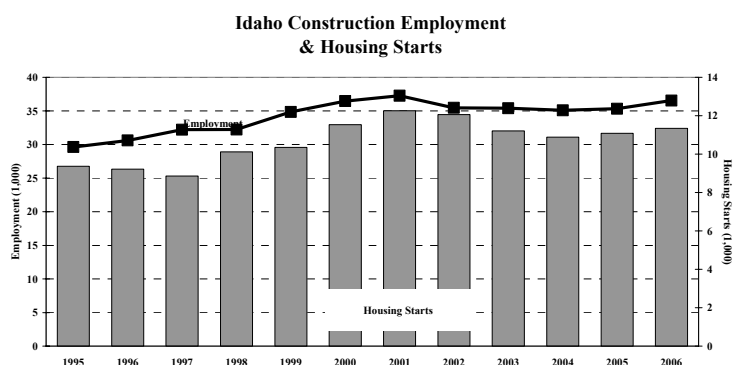


anticipated to retreat 1.1% and the services-producing sector should advance 1.3%. As a result, Idaho total nonfarm employment is projected to rise 0.9% in 2003. The growth of the services-producing sector reflects both cyclical and secular factors. This sector's slower growth since the 2001 recession shows it is not immune from a business downturn. For example, some local call centers have been temporarily closed due to lack of business. However, it has fared well compared to the state's goods-

producing sector. This reflects the nature of the recession. While most recessions are consumer driven, the 2001 recession resulted from a collapse in business investment. This has taken a heavy toll on the state's high tech companies. In addition, the state's natural resource industries have been reeling for several years. Thus, the services-producing sector was less vulnerable to the recession. Long-term changes present a brighter future for this important sector. Traditionally, the goods-producing sector determined the short-term fortunes of the services sector. For example, local implement dealers suffered if farmers fell on hard times. Automobile dealerships can trace their most prosperous times to when high-tech manufacturers handed out bonus checks to their employees. Of course, the roles of the goods-producing and services-producing sectors sometimes overlap. For example, construction is classified as a goods-producing activity, but clearly instead of being a primary driver of economic activity, its performance is largely driven by activity in other sectors. As the economy evolves, services-based industries are becoming less dependent on other industries. Instead of being driven by basic economic activity, they have become the drivers. An example of this trend is the growing number of call centers in Idaho. The call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also include a wide variety of business sectors. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. These companies have flourished in Idaho because new technology frees companies from being located near their markets. Instead, they are drawn to Idaho because of its high quality labor force. This has created opportunities in the Gem State that a few years ago would have seemed impossible. For example, Dell Computer recently opened a new service center in Twin Falls, Idaho, although the company is based in Texas. In another example, landlocked Boise is the home to a Japanese shipping company's scheduling operations. Although the connection between goods- and services-producing sectors have blurred, they have not been severed. In fact, in some cases they have even been reinforced. For example, some manufacturers employ temporary employees to meet peak production. As a result, their numbers wax and wane with the manufacturers' business cycle. These workers are often employed by employment services, so they are classified as service employees rather than manufacturing employees. Another trend affecting service employment is the increasing presence of national "big-box" merchandisers in the Gem state. During the 1990s, many Idaho communities' populations achieved the critical mass that attracted these companies. Recent openings by such industry giants as Fred Meyer, Home Depot, and Wal-Mart have provided employment opportunities in both urban and rural communities. Services-producing employment is projected to increase 1.3% in 2003, 1.9% in 2004, 2.4% in 2005, and 3.3% in 2006.

Construction: Idaho's job creation engine will be short an important piston over the next few years. During the state's long economic expansion, construction employment has grown at an above-average pace. From 1988 to 2001, construction employment advanced an average of 7.5% per year, which made it one of the state's fastest growing sectors. At this pace, the level of employment

nearly tripled from just fewer than 14,000 to 37,537. This stellar growth was largely fueled by the strong demand for housing that was caused by strong in-migration into the Gem State. Housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Housing starts did settle down to about 9,400 units in 1995. Since then, total housing starts have hovered in the 9,000- to 11,000-unit



range. Nonresidential construction also deserves credit for this sector's strong showing. Projects such as the Boise Towne Square Mall and the rebuilding of downtown Boise's infrastructure helped boost employment during the early years of the boom and provided an important cushion when housing starts dropped in 1995. Given the cooling economy, strained state and local government budgets, and slower population growth, both residential and nonresidential building are not expected to match their earlier strong performances. On the bright side, neither is construction projected to suffer a bust. One of the reasons for this is the state's demand and supply for housing is not as far out of balance as in other states. This is because Idaho builders were in catch-up mode during most of the expansion period. Thus, the state never developed a significant housing inventory surplus. Idaho housing starts are expected fall this year and next, then recover gradually in 2005 and 2006. Idaho construction employment is forecast decline 0.2% in 2003, 0.9% in 2004 and rise 0.7% in 2005 and 3.4% in 2006.